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# FARMERS' NEWSLETTER

## Cotton



March 81/C-16

Even though planting of the 1981 cotton crop has already begun in south Texas, most of you are probably still considering how much to plant. You may also have some marketing decisions to make, such as what to do with any unsold 1980 crop cotton, or whether to forward contract some of your 1981 crop.

Cotton supplies are tight and prices are unstable. These factors are creating considerable apprehension for cotton buyers as well as producers. Don't look for prices to stabilize in the near-term--until the outlook for the 1981 crop becomes much clearer.

For both your production and marketing decisions, you'll want to look at:

- your expected cotton production costs and how they'll stack up against those of competing crops, and
- the forces that will bear on cotton prices this year.

### Higher Production Costs

On a per acre basis, average U.S. production costs for the 1980 cotton crop rose an estimated 10 percent. But due to lower yields, costs per pound of lint climbed a whopping 50 percent, led by sharply higher fuel costs and interest rates.

You can anticipate higher per acre costs this year, but the rate of increase for some inputs may slow

some. With normal yields, costs per pound could be down from last year.

Interest rates may decline a bit this spring but remain at a relatively high level in 1981. Fuel prices are expected to rise the most--up 20 to 25 percent, reflecting domestic price decontrol and probable hikes in foreign oil prices. However, farm fuel supplies should be adequate.

Even with a large fertilizer carryover and sufficient production capacity, farm fertilizer prices may be about 14 percent higher this spring--about half the increase from 1979 to 1980. Look for fertilizer use to rise this year.

Prices for herbicides and insecticides may be up about 12 percent--slightly less than the increase in 1980. Supplies should be ample, barring any major disruption in crude oil supplies.

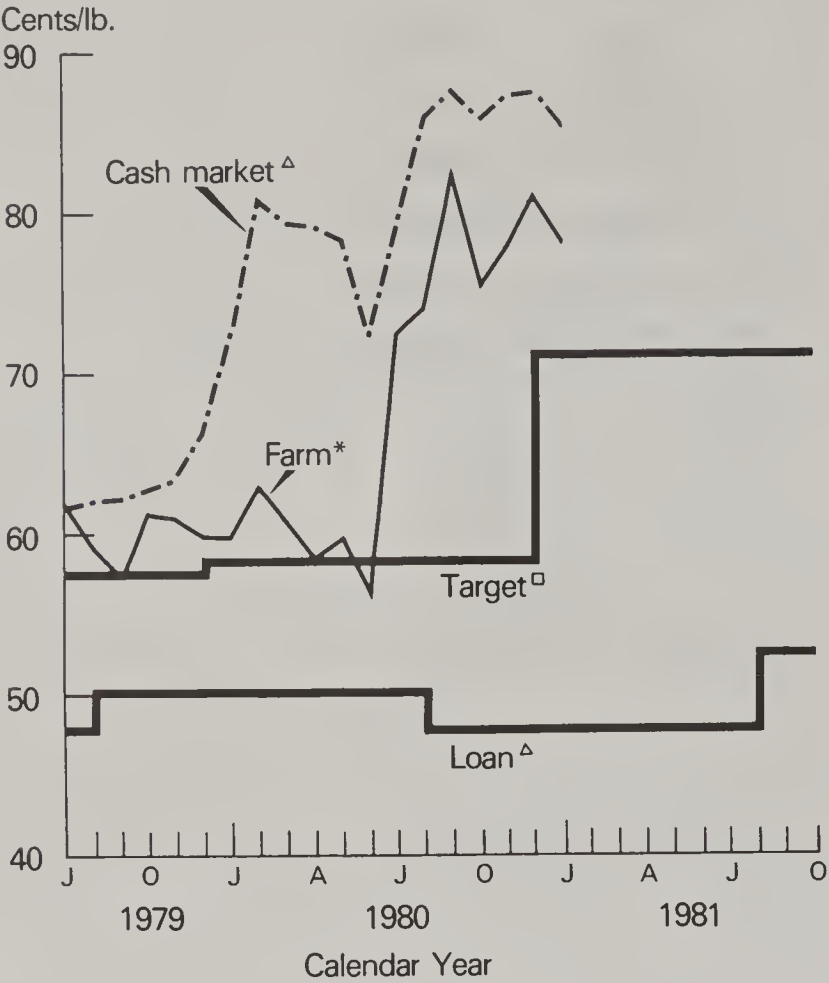
### Consider Break-even Prices

In evaluating your planting options, the break-even price concept may be useful. Your specific production costs and price prospects will probably differ from U.S. averages. So, in evaluating your options, it's better to use prices based on your own estimates than to rely on

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The next cotton newsletter is scheduled for early May.

FARM PRICES REMAIN HIGH



Δ SLM 1-1/16 inch at average location.  
\* U.S. average for all qualities and locations.  
□ Approximate for 1981.

national average costs, prices, and yields.

For illustration, however, let's assume you're debating whether to plant cotton or soybeans this year, and you expect the following:

	Cotton	Soybeans
Variable costs	\$255/acre	\$80/acre
Yields	470 lbs/acre	30 bu/acre
Cottonseed value	\$55	--
Price	?	\$7.50

You can calculate the price needed for cotton to provide the same net returns as soybeans like this:

- (1) Net returns from soybeans  
(\$7.50 x 30 bu) - \$80 = \$145/acre
- (2) The required cotton price is  
$$\frac{\$145 + \$255 - \$55}{470 \text{ lbs/acre}} = 73 \text{ cents/lb}$$

Under the same assumptions, if the expected price of soybeans is \$8 per bushel rather than \$7.50, the break-even price for cotton rises to 77 cents a pound.

You can use the break-even concept in other ways. Consider a case in which you have an offer to contract cotton for 80 cents, you expect \$8 soybeans, and your expected costs are the same as above. What cotton yield must you have for the contract to provide the same net return as beans would?

- (1) Net returns from soybeans  
(\$8 x 30 bu) - \$80 = \$160/acre
- (2) Net cost of cotton is  
\$255 - \$55 for seed = \$200/acre

PRODUCTION COSTS: HOW DO YOURS COMPARE?

	U.S. Average 1979	U.S. Average 1980	Estimate Your Own Costs
	\$/acre		
Variable costs:	205.67	221.34	-----
Seed, fertilizer, lime, and chemicals . . . . .	55.94	65.90	-----
Custom operations and labor . . . . .	46.02	48.06	-----
Fuel, lubrication, repairs.	53.07	63.30	-----
Purchased water. . . . .	3.88	3.71	-----
Interest. . . . .	5.66	7.86	-----
Ginning . . . . .	41.10	32.51	-----
Fixed costs, excluding land:	111.89	127.69	-----
Machinery ownership. . .	73.72	85.98	-----
General overhead and management. . . . .	38.17	41.71	-----
Total costs, excluding land.	317.56	349.03	-----
	lbs./planted acre		
Yield . . . . .	502	366	-----
	cents/lb.		
Variable costs . . . . .	41	60	-----
Total cost, excluding land .	63	95	-----



$$(3) \quad \frac{\$160 + \$200}{80 \text{ cents/lb}} = 450 \text{ lbs/acre}$$

Remember, it's only when you use your own cost, yield, and price estimates that the break-even analysis becomes useful.

### What To Do?

If you have the option of forward contracting, you may want to fall back on the "conventional wisdom" of contracting enough of your expected crop to cover your production expenses and then take a "wait and see" attitude on the rest.

The loan rate for the 1981 crop has been set at 52.46 cents a pound for Grade 41, staple 34--up from 48 cents last year. It now appears that the target price will be around 70 to 72 cents a pound for calendar 1981, up from 58.4 cents.

With your own break-even analysis in mind, you'll also want to make your planting decisions with an eye to the following supply/demand conditions that will affect cotton prices this year.

### Tight Cotton Supplies. . .

Cotton supplies are likely to remain tight into the 1981 harvest and possibly beyond. Generally dismal yields in 1980 and small stocks left over from the 1979 crop have produced sharply higher prices and reduced mill consumption and exports of cotton this season.

The 1980 U.S. crop totaled 11.1 million bales, 3.5 million, or 24 percent below 1979. With a 3-million-bale carryover from 1979, supplies for this season total only 14.2 million.

With domestic use and exports expected to take around 11-1/2 million bales,

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*           Plantings Update
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*   On March 19--shortly after this
*   letter goes to press--USDA will
*   issue nationwide planting in-
*   tentions for 1981.
*
*   For a quick update, call the
*   toll-free Farmers' Newslne--
*   (800) 424-7964--after 4 p.m.,
*   EST on March 19 through March 20.
*
*   Watch for this report. If
*   there are significant changes
*   from the acreage estimates
*   carried in this newsletter, you
*   may want to adjust your plans.
*
*   The next Cotton newsletter, set
*   for early May, will provide an
*   analysis of the intentions
*   report and 1981 crop prospects.
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ending stocks next August 1 may be drawn down to about 2.7 million.

### ...Lead to Cutbacks in Use. . .

Market prices began rising last summer when it became apparent that the drought-affected U.S. crop would fall short of expected demand.

While down from the highs of December, prices remain high by pre-1980 standards. During August-December, farm prices averaged around 77 cents a pound, more than a fifth above the previous season's average.

Domestic mills are expected to use about 5.9 million bales, down about .6 million from last year. Some of this decrease stems from sluggish economic activity, causing inventories of denim and corduroy to rise sharply. Continuing high and unstable cotton prices are also encouraging some substitution of synthetic fibers for cotton.

Foreign cotton production in 1980 rose

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to a record 54 million bales. But consumption is also expected to reach a record 60 million bales. As a result, export demand for U.S. cotton continues strong: The probable volume is 5.7 million bales--near the average for the past 5 years, but well below the 9.2 million sent abroad during 1979/80.

## ...A Cautious Market...

Many mills have covered their raw cotton needs for the next few months,

but have not purchased enough cotton for the last part of the year. Mills are trying to hold inventories to a minimum as they wait for 1981 crop prospects to become clearer before buying what's left of the 1980 crop.

Forward contracting has slowed to a crawl. Contracting through February represented about 4 percent of prospective acreage, compared with 17 percent this time last year, and 10 percent in 1979.

## ...And Concern About Plantings

So, there's a lot of interest in how many acres will be planted this year. January 1 intentions indicated a slight decrease--1 percent--to 14.1 million acres in the 16 States surveyed.

All major cotton States were surveyed except Missouri, where farmers planted 255,000 acres to cotton last year.

Even with acreage a little below last year, production should increase if yields return to anywhere near the 10-year average: about a bale per harvested acre, compared with last year's 411 pounds. At this point, it appears that only exceptionally high yields this year will ease the tight supply/demand situation.

## COTTON SUPPLIES TIGHTEN

Crop year beginning August 1	1978	1979	1980 <sup>1</sup>
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Million 480-lb. bales

Beginning stocks . . . . .	5.3	4.0	3.0
Production. . . . .	10.9	14.6	11.1
Total supply <sup>2</sup> . . . . .	16.2	18.6	14.2
Mill use. . . . .	6.4	6.5	5.9
Exports. . . . .	6.2	9.2	5.7
Total use <sup>2</sup> . . . . .	12.5	15.7	11.6
Ending stocks . . . . .	4.0	3.0	2.7

Cents per pound

Farm price . . . . .	58.4	63.4	<sup>3</sup> 77.1
Loan rate <sup>4</sup> . . . . .	48.0	50.2	48.0

<sup>1</sup> Estimated. <sup>2</sup> Includes imports. May not add because of rounding. <sup>3</sup> Average to January 1, 1981. <sup>4</sup> For SLM 1-1/16" cotton.